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*Debt Collection; Health Resources and Services Administration; *Loan Default

The General Accounting Office (GAO) reviewed and evaluated debt collection activities of five programs of the Health Resources and Services Administration (HRSA) that provide financial assistance to health professions students and medical facilities. The principal findings include: (1) HRSA changes have improved delinquency rates; however, large dollar amounts in seriously delinquent loans are still being carried; (2) HRSA has not established time frames for schools to determine the collectibility of loans and request write-off approval from HRSA; (3) HRSA's collection efforts were unnecessarily hampered by lack of a comprehensive debt management system, staffing shortages, and failure to follow established procedures; (4) the GAO Inspector General's recommendation of offsetting federal Medicare reimbursements to recover delinquent debts from physicians should be pilot-tested and, if it proves successful, should be implemented as a routine collection step. Comments from the Department of Health and Human Services are appended. A table of data on the average delinquency rates, by percentage, for health professions and nursing student loans from June 30, 1982 to June 30, 1986 is also provided. (KM)

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The Honorable John R. Kasich  
House of Representatives  

Dear Mr. Kasich:

As you requested, this report describes the results of our review of the Department of Health and Human Service's (HHS) Health Resources and Services Administration's (HRSA) efforts to ensure collection of debts under its programs which provide financial assistance to health professionals and facilities. This is the fourth in a series of reports you requested on several agencies’ debt collection activities.

Our review showed that HRSA has taken a number of actions to improve collection of debts under school-administered programs. However, additional debt collection improvements in these as well as in other HRSA programs providing assistance to health professionals could be made. The report contains recommendations to HHS for improving debt collection in these programs.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 5 days from the date of this report. At that time, we will send copies to the Secretary of HHS, the Director of the Office of Management and Budget, and other interested parties. Copies will also be made available to others upon request.

Sincerely yours,

Frederick D. Wolf  
Director
Executive Summary

Purpose

Debts owed to the Health Resources and Services Administration (HRSA) for financial assistance provided to thousands of health professions students and medical facilities totaled $1.1 billion as of September 30, 1986. The delinquent portion of these debts was about $127 million. Further, receivables under the scholarship program and insured loan program have sharply increased over the past 5 years. In addition, insured loans, which represent potential debts that may require future collection, exceeded $1.9 billion. These large amounts of receivables and insured loans outstanding underscore the need for aggressive and effective credit management and debt collection.

At the request of Representative John Kasich, GAO reviewed debt collection activities of five programs which represent approximately 83 and 92 percent of HRSA receivables and delinquencies, respectively. This report evaluates these programs' efforts to collect debts owed to or insured by HRSA and to monitor educational institutions' efforts to collect loans due the institutions. The report also makes recommendations for improvements.

Background

HRSA, a component of the Public Health Service (PHS) within the Department of Health and Human Services (HHS), administers federal programs designed to improve the nation's access to quality health services. Financial assistance is provided to students of medical professions through loans made by educational institutions with federal support, through scholarships awarded by HRSA, and through federally insured loans made by private lenders.

Under the Health Professions and Nursing Student Loan Programs, HRSA assists participating schools in establishing revolving loan funds which consist of federal and school funds and from which institutions extend loans to qualified health professions and nursing students. The institutions extend the loans and are responsible for loan collection. The effective management and collection of these loans is important because repayments are returned to the funds to be reloaned to other students. As of June 30, 1986, schools reported $542 million of loans in repayment, of which $47.5 million was delinquent.

Under the scholarship and loan insurance programs, HRSA has provided assistance to over 83,000 medical and other health professions students. Scholarship recipients who fail to serve in a geographic area with a health manpower shortage must reimburse the government for awards received, plus interest and penalties. As of September 30, 1986, HRSA
Executive Summary

reported receivables and delinquencies for the scholarship program totaling $160 million and $96.5 million, respectively. Under its loan insurance program, HRSA pays insurance claims to lending institutions for defaulted insured loans. As of September 30, 1986, loans insured under this program totaled about $1 billion, and receivables and delinquencies were $30 million and $21 million, respectively.

Results in Brief

In response to congressional concern and GAO and inspector general (IG) recommendations, HRSA has implemented several changes which have improved health professions' and nursing schools' credit management and collection of debts under the school-administered programs. However, health professions and nursing schools continue to carry large dollar amounts in seriously delinquent loans on their records, and the probability for collection of these loans is low.

An inadequate debt management system, HRSA's failure to follow established debt collection procedures, and staff shortages have resulted in significant delays in the administrative collection process.

In addition, HHS has not implemented the IG recommendation to offset Medicare payments to physicians delinquent on payment for educational assistance received from the Department.

Principal Findings

Changes in Delinquency Rates

The imposition of a 5 percent delinquency-rate performance standard and other actions by HRSA to address problems identified by GAO and the IG have contributed to the decline in average delinquency rates for health professions schools. The delinquency rate for health professions schools, as computed by GAO, declined from 10.5 percent as of June 30, 1982, to 4.7 percent as of June 30, 1986. (See chapter 2.)

While the delinquency rate for nursing schools declined from 23.3 percent as of June 30, 1982, to 17.8 percent as of June 30, 1984, the rate increased to 19.7 percent as of June 30, 1986. The overall nursing school delinquency rate should decline after the June 30, 1987, reporting date because HRSA expects that a large number of these schools will be terminated from the program for failure to comply with the performance standard. (See chapter 2.)
## Executive Summary

### Write-Off of Delinquent Loans

As of June 30, 1986, schools with health professions and nursing student loans reported $47.5 million in delinquent loans, of which $27 million (57 percent) was delinquent more than 3 years. Although the probability of collection is low, HHS has not established time frames in which schools must determine the collectibility of delinquent loans and request write-off approval from HRSA for uncollectible loans. Participating schools can carry delinquent loans as long as they can meet the delinquency-rate standard. Schools no longer participating in the programs can carry delinquent loans as receivables until the repayment period for all loans has expired. GAO believes HRSA should establish time frames for schools to write off delinquent loans and should require schools to reimburse the funds (or HRSA in the case of schools which are no longer participating in the programs) for those uncollectible loans where the school did not follow collection steps required by HRSA. This would make more funds available for health professions and nursing students. (See chapter 3.)

### Timeliness of Debt Collection Process

HRSA's collection of amounts due under the scholarship and insured loan programs has been seriously hindered by collection delays. HRSA's collection efforts were unnecessarily extended by lack of a comprehensive debt management system, staffing shortages, and failure to follow established procedures. (See chapter 3.)

Under both the scholarship and insured loan programs, HRSA was not adhering to the PHS established time frames for carrying out collection steps. Under the scholarship program, HRSA issued untimely collection notices and made few personal contacts. Also, HRSA established the due date for delinquent scholarship accounts as 1 year from the date of the first notice, instead of 1 year from the date the recipient breached the service contract, as required by law—thereby granting debtors additional time before payment is due. (See chapter 3.)

### Offsetting Medicare Payments

In April 1985, HHS's IG recommended that federal Medicare reimbursements be offset to recover delinquent debts from physicians who received educational assistance from the Department. However, HHS opposes this measure because of its belief that physicians would circumvent offset by billing patients instead of HHS. HHS in these cases would reimburse the patient rather than the physician. GAO believes that significant amounts of delinquent debt could be recovered through offset. HHS should pilot test Medicare offset, and, if it proves successful, HHS...
Executive Summary

should then implement offset as a routine collection step. (See chapter 3.)

Recommendations

GAO makes several recommendations to the Secretary of HHS to help improve the management and collection of debts under the school-administered, the scholarship, and the insured loan programs. (See chapters 2 and 3 for specific recommendations.)

Agency Comments

HHS agreed with GAO’s findings and with most of the recommendations.

HHS disagreed with the recommendation to pilot test the offset of Medicare reimbursements to physicians delinquent on HRSA medical education assistance. HHS opposes offset primarily because it believes it would not work. Instead of offset, HHS plans to use the authority given it in recently passed legislation to exclude delinquent physicians from the Medicare program as a means of facilitating the collection of unpaid debts. This legislation, however, requires the Secretary to take all reasonable steps available before using exclusion. Further, the committee reports on this legislation specifically state that the Secretary should explore the use of Medicare offset. GAO believes that the potential for collection of significant amounts of debt through Medicare offset justifies a pilot test of the use of Medicare offset and full implementation of this collection tool if the test is successful. (See chapters 2 and 3 for specific comments.)
Contents

Executive Summary 2

Chapter 1
Introduction
Prior Debt Collection and Credit Management Problems Identified 8
Objectives, Scope, and Methodology 10

Chapter 2
Additional Improvement Possible in Loan Programs Administered by Schools
Program Description and Administration 13
HPSL Delinquency Rates Decline, but NSL Rates Remain High 13
Schools Not Required To Write Off Uncollectible Loans and Reimburse the Funds 14
Conclusions 17
Recommendations 19
Agency Comments and Our Evaluation 20

Chapter 3
HRSA Debt Collection Actions Could Be Improved
Collection Delays in the Scholarship Program 21
Collection Delays in the Insured Loan Program 21
Medicare Reimbursements to Delinquent Physicians Could Be Withheld 27
Conclusions 31
Recommendations 33
Agency Comments and Our Evaluation 33

Appendix
Appendix I: Comments From the Department of Health and Human Services 38

Table
Table 2.1: Health Professions and Nursing Student Loans Average Delinquency Rates (Percentage) June 30, 1982 to June 30, 1986 (Computed by GAO) 15
### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>GAO</td>
<td>General Accounting Office</td>
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<td>HCFA</td>
<td>Health Care Financing Administration</td>
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<td>HPSL</td>
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<td>Health Resources and Services Administration</td>
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<td>IG</td>
<td>inspector general</td>
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<td>Internal Revenue Service</td>
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<td>NSL</td>
<td>Nursing Student Loan program</td>
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<td>Office of Management and Budget</td>
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<td>PHS</td>
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Chapter 1

Introduction

The continued increase in debts due to the federal government has been the focus of much attention from both the Congress and the administration over the past several years. This concern, along with numerous reports issued by GAO identifying weaknesses in the government's debt collection efforts, has resulted in increased emphasis on the debt collection problem.

Since 1982, legislation such as the Debt Collection Act of 1982 and the Deficit Reduction Act of 1984 has strengthened federal agencies' debt collection authorities. The President has made debt collection a priority and has designated the Office of Management and Budget (OMB) as the focal point for the administration's debt collection initiatives. In 1985, OMB issued circular A-129, which prescribes the administration's policies and procedures for managing federal credit programs and collecting receivables. In addition, in 1986, OMB gave the Department of the Treasury responsibility for policy decisions for carrying out the administration's debt collection initiatives.

Because of his continuing interest in improving the federal government's debt collection efforts, Representative John Kasich requested that we review several agencies' debt collection activities. This report, which is the fourth in a series responding to that request, evaluates the Health Resources and Services Administration's (HRSA) efforts to ensure collection of debts under its loan and loan insurance programs.

HRSA, a component of the Public Health Service (PHS) within the Department of Health and Human Services (HHS), is responsible for ensuring that the nation has access to quality and economical health services. As part of its mission, HRSA provides various types of financial assistance to medical students and health facilities. It does this through loan programs administered by schools, by making and insuring loans, and by operating a student scholarship program.

While the primary responsibility for collecting debts arising from its programs rests with HRSA, HHS receives guidance and direction from PHS and HHS. At the departmental level, HHS establishes overall debt collection

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Chapter 1
Introduction

policy for its various programs and activities. PHS, in turn, develops policies and procedures applicable to its components, such as HRSA, and monitors their activities.

HRSA's five financial assistance programs which we reviewed can be grouped into two broad categories—those administered by participating schools and those administered directly by HRSA. Schools administer the Health Professions Student Loan and the Nursing Student Loan programs. Programs administered directly by HRSA are the National Health Service Corps scholarship program, the Health Education Assistance Loan program, and the Health Facilities Direct and Guaranteed Loan program.

Receivables arise under these programs when funds are made available to educational institutions to help finance loan programs which they administer, borrowers default on loans insured by HRSA, scholarship recipients fail to meet service requirements, or direct loans are made by HRSA for health facilities.

As of September 30, 1986, HRSA reported total receivables of $1.1 billion and delinquencies of $127 million. As of the same date, HRSA reported receivables of $908 million and delinquencies of $117 million for the five programs included in our review. These amounts represented 83 and 92 percent of total HRSA receivables and delinquencies, respectively. In addition, these programs account for all loans insured by HRSA. As of the end of fiscal year 1986, insured loans under these programs, which represent potential receivables, totaled $1.9 billion.

Additional information on the school-administered programs is provided in chapter 2. Chapter 3 discusses HRSA administered programs which provide scholarships and insured loans to health professionals.

In addition, HRSA provides assistance to health facilities through direct loans and insured loans made by financial institutions. The majority of the facilities' loans were provided by the Hill-Burton loan program, which made or insured loans to hospitals and other medical facilities for construction and renovation until the late 1970's. The program no longer makes or insures new loans. As of September 30, 1986, direct and insured Hill-Burton loans totaled approximately $1 billion. Since fiscal year 1982, both receivables and delinquencies resulting from this program have decreased. At the end of fiscal year 1986, receivables totaled about $145 million and delinquencies were zero. Because of the relatively small amount of receivables and the fact that loans are no longer
being made under this program, we do not discuss this program further in the report.

Aggressive credit management and debt collection is important for the successful collection of HRSA receivables. When borrowers refuse to repay their loans, they are given benefits to which they are not entitled, and the government is deprived of the use of its funds. Moreover, the amount of money available for other medical and nursing students is reduced.

Prior Debt Collection and Credit Management Problems Identified

Problems in HRSA's credit management and debt collection have been highlighted in the past by GAO and HHS IG audit reports and a PHS management review. For example, in 1982, we reported that HRSA's failure to adequately manage the school-administered programs resulted in high delinquency rates. In that report, we made several recommendations to address these long-standing problems.

Recognizing the need for improved debt collection, the IG has also reviewed several aspects of HRSA's debt collection activities. For example, in a 1986 report, the IG reported that unless actions are taken to reduce the growth in claims under the insured loan program, the insurance fund could become insolvent, and an estimated $20.5 million in appropriations could be needed to pay fiscal year 1988 claims. The IG made several recommendations to help ensure the solvency of the insurance fund, such as seeking legislative authority to sell delinquent loans and raising the insurance premium to an actuarially sound figure.

As part of its monitoring responsibility, PHS conducted a study of its components' delinquent debt processes in 1985. That review showed that HRSA was taking an average of 22 months to refer delinquent cases to the Department of Justice. Chapters 2 and 3 contain more specific details on previously identified debt collection problems in our selected programs.

Objectives, Scope, and Methodology

The objective of this report is to evaluate the efforts of five HRSA programs to collect debts owed to or insured by HRSA and to examine the way HRSA monitors educational institutions' efforts to collect loans made

2Actions Underway To Reduce Delinquencies in the Health Professions and Nursing Student Loan Programs (GAO/AFMD-83-7, December 1, 1982)
Chapter 1
Introduction

to health professions and nursing students. We focused our review on the following programs through which HRSA provides this assistance:

- Health Professions Student Loan program (HPSL),
- Nursing Student Loan program (NSL),
- National Health Service Corps Scholarship program,
- Health Education Assistance Loan program, and
- Health Facilities Direct and Guaranteed Loan program.

Our objective was to evaluate HRSA's efforts to collect or ensure that debts under each of the above programs are collected. Specifically, we evaluated steps HRSA took to ensure that schools participating in HPSL and NSL programs were effectively collecting debts. In addition, we evaluated policies and procedures followed by HRSA to collect debts under those programs it administers directly.

We identified debt collection procedures by interviewing pertinent officials of each of the programs reviewed and officials of PHS and IHS. We also reviewed appropriate credit management and debt collection policies and procedures, such as regulations, manuals, and memoranda of the Department, PHS, and HRSA. We interviewed officials and reviewed documents to determine steps taken to collect receivables, impediments to debt collection, past results, and future debt collection plans.

We reviewed IG reports on the selected programs and discussed review results and the status of actions on the IG recommendations with officials of that office. We also reviewed an internal PHS study on debt collection activities of each of its components and their major programs.

We also determined actions taken by HRSA to correct deficiencies identified in our 1982 report on the school-administered loan programs. We reviewed regulations, policies, and procedures which HRSA implemented to correct the deficiencies, and we examined HRSA's actions to monitor schools' collection activities. We also identified the actions HRSA had taken against schools for not complying with its requirements. We did not visit schools to assess their debt collection activities.

Our evaluation of HRSA's debt collection policies and procedures included an analysis of 30 cases in detail. This included 10 cases each for the scholarship, insured loan, and school-administered loan programs. Our review of the scholarship and insured loan cases focused on examining the steps HRSA took to collect delinquent debts, the problems experienced
in attempting to collect, and the time taken to complete collection activities. We reviewed school-administered cases to determine the type of actions the schools were taking to collect debts, the schools' delinquency rates, and how HRSA was monitoring the schools' program administration activities.

We determined changes in the amount of receivables, delinquencies, and collections for HRSA in total and for each of the programs reviewed for fiscal years ending 1982 through 1986. We discussed the reasons for increases and decreases in receivables, delinquencies, and collections with appropriate agency officials.

Our review was performed from May 1986 through April 1987 in accordance with generally accepted government auditing standards. Our work was performed at the Health Resources and Services Administration in Rockville, Maryland. Most statistical information, such as receivables, collections, and delinquencies were analyzed for the fiscal years ended September 30, 1982, through September 30, 1986.
While the overall delinquency rate for schools participating in the Health Professions Student Loan program (HPSL) has been brought within limits established by HRSA, the rate for those schools participating in the Nursing Student Loan program (NSL) is seriously high. Many delinquent loans due from students of these two programs are unlikely to ever be collected, considering the history and age of these loans. This situation deprives other students of the use of millions of dollars in loan funds which might otherwise be available to them through these programs. Some loans have remained delinquent for extended periods—3 years or longer—because HRSA has not established time limits within which schools are required to determine the collectibility of delinquent loans, request HRSA approval to write off uncollectible loans, and reimburse the revolving fund (or HRSA in the case of schools no longer participating in the programs) for those loans where required collection steps have not been performed.

Program Description and Administration

In response to an anticipated national shortage of doctors, nurses, and other health professionals, the Congress established HPSL through Public Law 88-129 in 1963, and NSL through Public Law 88-581 in 1964. The legislation provides for low interest loans to be made by participating schools to eligible health professions and nursing students.

HRSA has overall management responsibility for the programs. This responsibility includes awarding funds to participating institutions, providing guidance and direction to the schools, and monitoring schools' activities to ensure that the funds are used in accordance with federal program and fiscal regulations. Receivables reported by HRSA represent the government's share of the revolving funds at the schools. As of September 30, 1986, HRSA reported receivables from schools of about $573 million.

Participating schools have a wide range of administrative responsibilities under the programs. These include making loans to eligible students; processing requests for loan repayments, deferments, and cancellations; collecting loans due from former students; requesting HRSA approval to write off uncollectible loans; and reporting annually to HRSA on the operation and status of the loan programs.

Schools make loans from revolving funds consisting of federal government and school funds. Each participating school is required to contribute at least one-ninth of the amount received from the government.
Loan repayments plus interest received by the schools must be returned to the revolving funds to be reloaned. This recycling of funds continues for as long as the school participates in the programs. The government's share of each participating school's fund (HRSA's receivables) must be returned to HRSA when a school discontinues its participation in the programs or when HRSA terminates a school's involvement.

Loan repayments are to be made over a 10-year period, beginning 12 months after course completion for health professionals and 9 months after completion for nurses. However, a borrower may be eligible for periods of deferment during which interest does not accrue.

If a school cannot collect a delinquent loan and it has followed "due diligence" standards established by HRSA, up to 90 percent of the loan is written off in the school's revolving fund against the government's share of the loan. If a school writes off a loan for which due diligence collection standards were not followed, it will be required to reimburse the fund for the principal and interest which remains uncollected.

As of June 30, 1986, the approximately 940 schools participating in these programs reported loans valued at $542 million in repayment status, of which $47.5 million was delinquent. Since these amounts are receivables of the participating schools, and not of HRSA, collection activities are performed by the schools. The efficient collection of these loans is crucial to the programs' mission because collections are used by the schools to make additional loans to other students.

HPSL Delinquency Rates Decline, but NSL Rates Remain High

Since 1982, the average delinquency rate for schools participating in the HPSL program has gradually declined, while the average delinquency rate for schools participating in the NSL program has remained seriously high. As of June 30, 1986, nursing schools reported approximately $133 million of loans in repayment status, of which $26.2 million, or 19.7 percent, was past due 60 days or more.

HRSA used three different formulas to compute the delinquency rates for the period 1982 to 1986. In order to provide a consistent basis for comparative purposes, we computed the rates for these years using the...

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3Due diligence standards include a number of steps to be followed by schools in attempting to collect delinquent loans before HRSA will approve a write-off. These steps are detailed later in this chapter.

4In August and October 1985, the Congress statutorily established the formula for computing the delinquency rate for the Health Professions and Nursing Student Loan programs. For the health professions programs in total, using the new method of calculation, the delinquency rate was 2.54 percent for the period ending June 30, 1986. For the nursing programs in total, using the new method of calculation, a delinquency rate of 8.7 percent was reported for the period ending June 30, 1986.
formula which was used throughout most of the period (see table 2.1). Our computations showed that between June 30, 1982, and June 30, 1986, the average delinquency rate for the HPSL program dropped from 10.5 percent to 4.7 percent. The NSL program rates remained relatively high, declining only from 23.3 percent at June 30, 1982 to 19.7 percent at June 30, 1986.

Table 2.1: Health Professions and Nursing Student Loans Average Delinquency Rates (Percentage) June 30, 1982 to June 30, 1986 (Computed by GAO)

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<tr>
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<td>17.8</td>
<td>18.1</td>
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Note: We computed the rate for each year by dividing the total amount of loans delinquent more than 60 days (less any principal repaid or cancelled) by the total of all loans in repayment status. This is the delinquency rate formula used by HRSA in 1983, 1984, and 1985.

HRSA attributed the delinquency rate decline for the HPSL program to actions taken in response to 1981 congressional hearings on the program’s debt collection activities, our 1982 report, and subsequent audits performed by the Department’s Office of Inspector General. These actions also affected the NSL program, and contributed to a delinquency rate decline in 1983 and 1984; however, the average delinquency rate for this program has since risen annually and remains seriously high as of June 30, 1986.

Our 1982 report pointed out that the schools generally did not comply with due diligence requirements in billing and collecting outstanding loans and that HHS needed to monitor the programs more closely and require schools to meet a delinquency-rate standard to continue in the programs. Responding to the recommendations in that report and to congressional and IG concerns, HHS initiated a number of actions to improve the administration of both the Health Professions and the Nursing Student Loan programs. These actions included:

- requiring schools to obtain HRSA approval prior to writing off delinquent loans;
- revising regulations to enhance debt collection and program management;
- disseminating guidance to schools through policy memoranda;
- holding program-management workshops for schools;
- sponsoring program reviews and technical assistance visits; and

Hearings before the Senate Committee on Governmental Affairs, on the HPSL and NSL high delinquency rates, December 8, 1981.

Page 15

GAO/AFMD-88-23 HRSA Debt Collection
revising reporting requirements to obtain more data from schools.

In addition, in June 1983, HHS issued regulations creating a 5 percent delinquency-rate standard for the HPSL program. Similar regulations for the NSL program were issued in August 1985. By establishing a delinquency-rate performance standard, HRSA placed the burden of efficient debt collection on the schools. To continue participating in the program, schools must, among other things, achieve a delinquency rate of no more than 5 percent at June 30 of each year or reduce their existing delinquency rate by 50 percent within 6 months, and an additional 50 percent for each 6 month period thereafter, until the school's delinquency rate does not exceed 5 percent. Schools that fail to comply are subject to probation, suspension, and potential termination from the programs.

A school is initially placed in probation when the delinquency rate exceeds the 5 percent standard as of each June 30 period. Under the terms of probation, the school may continue operating all aspects of the program for the following 6 months. If the school fails to meet the 5 percent standard or to reduce its delinquency rate by 50 percent within this period, it is placed in suspension. While in suspension, a school is restricted from extending any new loans. If the school again fails to reduce its delinquency rate by the required amount within the next 6 months, it is terminated from the program and must return the federal share of the program's funds to the federal government.

Based on reports received from the schools for the year ended June 30, 1986, HRSA had terminated four health professions schools for failure to meet the performance standard. In addition, four other health professions schools were awaiting a final determination of termination pending an administrative appeal, one school was in suspension, and ten schools were in probation.

As of June 30, 1986, 522 nursing schools were in probation. Since about 300 of these were in suspension as of December 31, 1986, and 130 have not disbursed loans to students for the past 2 academic years or more, HRSA officials expected that a sizable number of schools would be terminated after the June 30, 1987, reporting period for not meeting the performance standard.
Although schools are carrying large dollar amounts of seriously delinquent loans for which the probability of collection is low, HRSA has not required schools to write off these loans as uncollectible. Specifically, HRSA has not established time limits in which the schools must determine the collectibility of these loans, write off those loans which are uncollectible, and reimburse the funds for those where the schools did not follow required collection steps. As a result, the dollar amount of those loans for which the schools would be required to reimburse the funds is not available to be loaned to other health professions and nursing students, and receivables and delinquency rates are higher than necessary. As of June 30, 1986, approximately 57 percent ($27.3 million) of the delinquent loans reported by schools participating in the Health Professions and Nursing Student Loan programs were delinquent 3 years or more. About $6.8 million of this amount was attributable to the HPSL program and about $20.5 million to the NSL program.

Schools may request HRSA approval to write off uncollectible loans. If HRSA approves a write-off, 90 percent of the loan is written off against the government’s share of the fund and the remaining 10 percent is written off against the school’s share.

Before HRSA will approve a write-off, the school must prove that it followed due diligence in attempting to collect the loan. Program regulations, effective September 1985, require schools to follow 10 due diligence steps in attempting to collect delinquent loans. These 10 steps are: (1) an entrance interview, (2) an exit interview, (3) grace period contacts, (4) deferment contacts, (5) regular billings, (6) follow-up on past-due accounts, (7) address searches, when necessary, to locate debtors, (8) use of collection agents, (9) use of litigation when appropriate, and (10) referral of delinquent accounts to credit bureaus when appropriate.

Schools continue to be responsible for any loans which do not receive write-off approval and may subject the accounts to additional collection efforts as appropriate. However, the school is allowed to determine the point in time at which it will reimburse the loan fund for the unpaid principal and interest which continues to accrue on the unpaid principal balance for those loans which can neither be collected from the borrower nor approved for write-off by HRSA. As long as schools carry uncollectible...
loans as receivables (rather than reimburse the fund for the uncollectible amount), they must report the loans as delinquent amounts—which tends to raise the school's delinquency rate."

HRSA officials believe that many of these older delinquent accounts would probably not be approved for write-off. This is supported by past write-off history, whereby HRSA, through September 30, 1986, had rejected 54 percent of the $6.9 million in delinquent loans for which schools had requested write-off approval. In addition, a November 1985 IG report stated that an audit of 11 schools found that the schools had delayed writing off $2.5 million of principal on loans which were at least 2 years delinquent and which had little probability of repayment.

In responding to the IG report, HRSA stated that the schools should not be required to write off these loans until the effectiveness of the 5 percent performance standard and the penalties for noncompliance are determined. In our opinion, HRSA should not allow schools to avoid reimbursing the funds for uncollectible loans simply because they can continue to meet the delinquency-rate performance standard. Doing so deprives other students of the use of these funds and increases the schools' receivable and delinquency rates.

Moreover, HRSA officials were not concerned about the older delinquent loans still carried as receivables by the schools because schools are required to meet the delinquency-rate performance standard, which tends to keep the total delinquencies at an acceptable level. They also believed that allowing schools to carry older delinquent loans forces them to emphasize collection of newer loans, which have a higher probability of collection.

Although we agree that the establishment and enforcement of a delinquency-rate performance standard is needed to control delinquencies, schools should not be allowed to carry uncollectible loans indefinitely or until the repayment period expires for those schools which are no longer participating in the programs. Such a policy does not encourage schools to emphasize collection of older loans. Since the probability of collection decreases as debts become older, good financial, program, and credit management dictates that delinquent debts be periodically reviewed for write-off.

"Those schools which are no longer participating in the loan programs, but which still have outstanding loans in repayment status, are not subject to the delinquency-rate standard and can therefore continue to carry delinquent loans. These schools, however, are required to return all collections to HRSA on a quarterly basis."
HRSA officials also explained that interest continues to accrue on the loan principal which must be placed into the fund when the school decides to reimburse the fund. However, in our opinion, the low interest rates on these delinquent loans provide little incentive for schools to reimburse the fund. The interest rates for the health professions and nursing student loans are 9 and 6 percent, respectively.

HRSA officials also believe that the programs' mission might be adversely affected if schools were required to reimburse the fund for uncollectible loans which HRSA would not approve for write-off. They are concerned that such a requirement might cause some schools to declare bankruptcy and/or close down their programs. However, schools will have to repay these amounts if they stop participating in the programs or if their delinquency rates exceed the performance standard. Allowing schools to delay reimbursing the fund will postpone, but not reduce, this financial burden.

HRSA needs to encourage schools to write off uncollectible loans and reimburse the funds for those for which write-off approval is not granted. To accomplish this, HRSA should establish time limits within which schools must determine the collectibility of delinquent loans and request HRSA's approval to write off those determined to be uncollectible. If schools are unable to demonstrate that they have satisfied due diligence in collecting these loans, HRSA needs to require the schools to reimburse the funds within specified periods so that additional awards can be made to other needy students.

Conclusions

HRSA's imposition of a delinquency-rate performance standard has contributed to the decline in average delinquency rates for schools participating in the HPSL program. However, the rates for schools participating in the NSL program remain high.

HRSA could further reduce the delinquency rates and make additional funds available to other students if it prohibited schools from continuing to carry, as receivables, delinquent accounts for which there is little probability of collection. HRSA needs to further encourage schools to prevent accounts from becoming delinquent by establishing time limits in which schools must determine the collectibility of delinquent accounts, request HRSA approval for write-off, and reimburse the funds for those accounts for which write-off is not approved. A similar time limit for write-off action should also be imposed on schools which are no longer
participating in the Health Professions and Nursing Student Loan programs but which still have loans in repayment status.

Recommendations

We recommend that the Secretary of HHS direct the Administrator of HRSA to establish time limits within which schools participating in the Health Professions and Nursing Student Loan programs must determine the collectibility of delinquent loans and must request HRSA write-off approval for those which are determined to be uncollectible. We also recommend that the Administrator set time limits within which the schools must reimburse the funds, or HRSA (in the case of those schools which are no longer participating in the programs) for those loans for which the schools did not follow required collection procedures.

Agency Comments and Our Evaluation

HHS agreed with our recommendations and will implement them if its Office of the General Counsel determines that HHS has the legal authority to do so.
HRSA Debt Collection Actions Could Be Improved

Collection delays have seriously hindered HRSA's collection of receivables under the National Health Service Corps and the Health Education Assistance Loan programs. The time spent in attempting to collect these debts was unnecessarily extended because HRSA did not follow established collection procedures and other appropriate practices. In addition, HHS does not withhold Medicare payments to physicians who owe delinquent debts to HRSA under these programs although HHS regulations allow use of this collection tool.

Timely collection actions are important because debts become increasingly difficult to collect the longer they are past-due. Delays in the collection process give debtors additional time to incur other monetary, personal, or professional obligations which may hinder their ability or willingness to reimburse HRSA.

The following sections discuss collection delays in the scholarship and insured loan programs and the potential for withholding Medicare payments to satisfy amounts owed by physicians who are delinquent.

Collection Delays in the Scholarship Program

HRSA delayed issuing collection notices and entered into prolonged negotiations, including numerous telephone contacts with debtors, after accounts became fully due and payable. These practices delayed both the administrative collection process and the referral of delinquent cases requiring litigation to the Department of Justice.

Collection Procedures

HRSA provides scholarship assistance to students of health professions who agree to serve a minimum of 2 years in a geographic area with a health manpower shortage. Upon completion of training, recipients are assigned to a shortage area and are scheduled to report on a given date. Since the first scholarship awards in fiscal year 1974, HRSA has provided support to over 13,600 health professions students under this program.

Scholarship recipients who do not comply with the service requirement upon completion of their training are in default of their service contract. In these cases, legislation, effective in 1977, requires full repayment of 3 times the scholarship amount plus interest by the end of a 1-year period, which commences on the date the service contract was breached. Recipients who neither repay nor agree to provide service by the conclusion of this 1-year period are delinquent. As of September 30, 1986, HRSA...

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7Title 42 U.S.C. Section 2540 (b)(1) and 294h (c)(2).
reported $160 million in receivables for this program, of which $96.5 million, or about 60 percent, was delinquent.

Receivables and delinquencies for scholarship indebtedness have sharply increased over the past 5 years. One of the major reasons for this increase was the legislative imposition of the treble damage penalty for scholarships received after 1977, which directly impacted amounts of receivables and delinquencies. Prior to this time, individuals who defaulted on their service contracts were required to repay only the amount of support received plus interest within 3 years from the contract default date. Another factor contributing to this increase was the rise in contract defaults from the large number of scholarship recipients who were scheduled to begin service during the early to mid-1980’s.

HRSA officials informed us that they follow the PHS Debt Management Manual in collecting delinquent debts. This manual provides guidance on debt collection procedures and sets time limits for performing collection steps so that collection actions can be completed and cases referred to the Department of Justice within 1 year after the agency’s initial billing. For example, the manual requires issuance of three written demand letters. The first is to be sent 5 days after the debt becomes delinquent, and the remaining two are to be sent at 30-day intervals. In addition, the manual provides for expediting the collection process by eliminating certain steps when a determination is made that it would be futile to continue those steps.

During the 1-year period following a breach of contract and before debts become fully due and payable, HRSA’s collection activities primarily involve issuing two written collection notices. The first, a default notice, advises the recipient that the debt is fully payable by the end of the 1-year period. The second notice reminds the recipient of the date on which the debt becomes fully due and payable. After the 1-year period expires, HRSA issues a final demand notice which informs the recipient that the debt is delinquent because full repayment or agreement to fulfill the service contract did not occur by the due date.

Delays in Collection

Although the PHS manual does not address notices issued prior to the due date of a debt and HRSA has no written policy on when these notices should be sent, HRSA officials informed us that the initial default notice is to be sent when the recipient defaults. They also stated that reminder notices are to be sent 60 days prior to the due date and that final demand notices are to be sent within a week or two after delinquency.
However, our analysis of the 185 collection notices issued by HRSA during the 4-month period from October 1986 through January 1987 showed the following:

- HRSA issued initial default notices an average of 5 months after debtors defaulted on their service contracts.
- HRSA notices reminding debtors that their debt would become fully payable on a given date were issued at inconsistent intervals, ranging from about 2 months before this date to almost 4 months after the debt was due. These notices, on average, were sent about 1 week before the debt was due.
- Final demand notices were issued an average of 4 months after the debt became fully due and payable.

The following are specific examples of delays in HRSA's issuance of collection notices:

- HRSA issued an initial default notice to a debtor owing about $226,000 approximately 15.5 months after she defaulted on her service contract.
- HRSA issued a final demand notice to a debtor owing about $91,000 over 6 months after conclusion of the 1-year period when the debt became fully due and payable.

HRSA collection activities after delinquency include using a private collection contractor and referring accounts to the Department of Justice for litigation. For tax year 1986, HRSA participated in the Internal Revenue Service's (IRS) tax refund offset program. As part of the tax refund offset effort, HRSA reported delinquent scholarship accounts to a consumer reporting agency and plans to continue referring accounts on a regular basis. However, there were extensive delays in initiating these collection steps.

HRSA spent an average of almost 17 months after debts became due attempting to collect six of the ten accounts we reviewed before it terminated collection efforts and referred the cases to the Department of Justice for litigation. By the end of February 1987, the four remaining cases had been delinquent an average of almost 21 months. Similar delays were noted in a 1985 PHS study, which found that HRSA was spending approximately 20.8 months attempting to collect delinquent scholarship accounts:

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8As of mid-July 1987, HRSA had not collected any amount from these debtors.

9The Deficit Reduction Act of 1984 gives the IRS temporary authority to withhold income tax refunds payable in 1986 and 1987 to recover past-due legally enforceable debt payable to federal agencies.
debts. The following examples illustrate the delays in scholarship collections.

- In April 1984, an individual scheduled to begin service in July 1984 requested to be released from her service obligation for a variety of personal and professional reasons. HRSA denied this request and notified her on August 30, 1984, that she was considered in default as of July 1, 1984. HRSA required that she repay $96,000 (which represented 3 times the scholarship amount of about $32,000) within 1 year from the date of the notice. This allowed the debtor 2 more months than is allowed under legislation to repay her indebtedness.

  During the 1-year period, the debtor retained the services of an attorney, continually requested waiver of her indebtedness, and offered partial payment of about $32,000 in full satisfaction of the debt. HRSA discontinued negotiations and referred the case to the Department of Justice for litigation in October 1986, 13 months after it had become delinquent. By this time, the debtor owed approximately $128,000. As of mid-July 1987, HRSA had collected about $609 from this debtor.

- HRSA considered an individual in default of his service contract as of July 1, 1980, because he pursued an unapproved postgraduate training program. However, HRSA did not issue a default notice until January 15, 1981, granting the debtor an additional 7-month period because of “administrative delay.” At this time, HRSA informed the debtor that his financial obligation totaled almost $75,000 and required him to fully repay by February 1, 1982.

  Although the individual failed to pay by the due date, HRSA issued additional collection notices, which extended the required response date almost 9 months after delinquency. Subsequently, the account was referred to a collection contractor. HRSA did not conduct additional collection activities after the contractor returned the account, nor did it refer the account to the Department of Justice until over 7 months later. By the time the account was referred, about the end of April 1984, the debtor owed approximately $110,000, about $44,000 of which represented accrued interest. As of mid-July 1987, HRSA had not yet collected any amount from this debtor.

\[1^{\text{HRSA did not accept this because legislation requires recipients who default to either fulfill their service contract or to repay 3 times the amount of the scholarship awards plus interest. According to HRSA officials, acceptance of only the scholarship amount would adversely affect the program's mission, which is to provide medical care to underserved areas.}}\]
Reasons for Delays

A major reason for collection delays in the scholarship program was the lack of a comprehensive debt management system. Without such a system, the scholarship collection process is slowed because of the time it takes to reconcile information between the various systems presently maintained by accounting and program offices and the time required to obtain current account information when needed. A comprehensive debt management system would automatically generate and monitor collection notices, maintain current account status and balance information, and centralize debt collection efforts under a uniform, comprehensive management system.

Delays in issuing default notices during the 1-year period occur primarily because of the time it takes to pass notification of default through the various HRSA organization levels to the division responsible for collections. HRSA officials believe that a comprehensive debt management system would also help expedite this notification process.

HRSA efforts to implement a debt management system have been delayed by an HHS departmentwide moratorium issued in November 1983, prohibiting procurement or upgrades of financial and accounting systems. The moratorium was imposed to ensure that such development projects are consistent with the Department's objective of establishing a standard accounting system. In mid-August 1987, HHS granted HRSA a waiver of the moratorium so that it could obtain a debt management system. We believe that a comprehensive system will help HRSA manage delinquent scholarship accounts and reduce the time spent on collections.

Collection delays also occurred because of HRSA's policy of making the due date 1 year from the date of the initial default notice instead of 1 year from the date of contract default, as required by legislation. This policy was adopted so that debtors would not be penalized for HRSA's tardiness in issuing default notices. Given the delays in HRSA's issuance of default notices, an average of 5 months for the notices included in our review, this practice grants debtors additional time before repayment is due.

HRSA's practice is inconsistent with the program's legislation requiring full repayment within 1 year from the date of contract default. Further, this practice is unnecessary because scholarship recipients, having entered into the scholarship agreement, should be aware of their contractual responsibilities and terms of repayment upon default. They represent a sophisticated and highly-educated group of debtors.
Another factor impeding HRSA scholarship collections is the limited collection actions conducted during the 1-year period. HRSA currently issues two demand notices during this period. However, our case review and analysis of HRSA collection notices showed that these notices were issued on an irregular and untimely basis. According to HRSA officials, additional collection actions are not taken because scholarship debts are not due and payable until conclusion of the 1-year period.

We recognize that, by law, the debtor may legally wait until the end of the 1-year period before paying the debt. However, we believe HRSA could do more during this period to encourage the debtor to repay or fulfill the service commitment and to obtain information about the debtor which would be useful when more extensive debt collection actions become necessary. Since the average indebtedness for scholarship defaulters is about $120,000, including interest and treble damage penalty, it is in both the government’s and the debtor’s best interests to address the indebtedness as early as possible.

In order to avoid delays in collection actions, we believe that HRSA should issue collection notices at regular, predetermined intervals throughout the 1-year period. For example, HRSA could issue notices within 1 month after the debtor defaults on the service contract, 1 month prior to the end of the 1-year period, and at other regular intervals during this period. HRSA could also establish procedures for ensuring that all such notices are issued on a timely basis. For maximum effectiveness, these notification letters should become progressively stronger with each issuance.

In addition, we believe that HRSA should attempt to personally contact debtors by telephone during the 1-year period. These contacts, as well as debtor responses to the collection notices, would provide HRSA with pertinent information concerning the debtor’s financial, professional, and personal situation, and the debtor’s interest in fulfilling the program’s service requirement. This information would help HRSA determine, by conclusion of the 1-year period, whether the debtor plans to honor the service commitment and whether additional collection efforts may be necessary.

The collection process was also extended because HRSA participated in prolonged negotiations and contacts with debtors after scholarship debts became due. This communication occurred through letters and in some cases by telephone. Although we recognize that this practice was intended to further the program’s mission by encouraging defaulted
Chapter 3
HRSA Debt Collection Actions Could Be Improved

recipients to complete the service obligation, we believe that by the conclusion of the 1-year period, HRSA should already have determined whether the debtor considered service a viable alternative.

HRSA could further improve the timeliness of its collections if it adhered to PHS collection procedures and timetables for required collection activities after expiration of the 1-year period. At a minimum, those scholarship recipients who have not agreed to serve, or who have not arranged suitable repayment terms by the end of the 1-year period should be given appropriate notice immediately upon expiration of the period. HRSA should then make referrals to consumer reporting agencies, private collection contractors, and/or the Department of Justice for litigation.

Collection Delays in the Insured Loan Program

HRSA has also experienced serious collection delays under its insured loan program. HRSA issued numerous and repetitive collection notices and allowed long intervals of time to elapse between collection actions. Further, it did not follow PHS debt collection standards which prescribe time limits for completing collection efforts. The significance of HRSA's delays is heightened by the fact that insured loan accounts are already seriously delinquent upon assignment to HRSA.

Collection Procedures

HRSA insures loans made by approved private lenders to health professions students. Lenders are responsible for collecting these loans. Lenders attempt to collect the defaulted amounts and seek HRSA collection assistance, which consists of three letters to the borrower on HRSA letterhead, before submitting insurance claims. HRSA disburses funds for approved claims of defaulted insured loans from the Student Loan Insurance Fund (SLIF).11

After insurance fund payments are made to financial institutions, insured notes are assigned to HRSA. The rate of claims paid from the insurance fund has been sharply increasing over the past several years. Over 81 percent of the claims paid since inception of the program in 1978 were paid in fiscal years 1985 and 1986 alone.

As of September 30, 1986, loans insured under this program totaled about $1 billion. As of the same date, HRSA reported over $30 million in

11The SLIF is comprised of insurance premiums collected from borrowers at the time of loan award, HRSA collection of defaulted loan amounts, and investment income earned on SLIF balances. Current statute establishes the maximum insurance premium charge at 8 percent of the loan amount.
Chapter 3
HRSA Debt Collection Actions Could Be Improved

receivables, which represented claims it had paid for defaulted insured loans. Approximately 62 percent ($21 million) of the receivables as of September 30, 1986, were delinquent. The timely collection of insured loan accounts would provide additional funds to the insurance fund, which, according to HHS's IG, could become insolvent in fiscal year 1988.

As in the scholarship program, HRSA officials informed us that they follow the PHS Debt Management Manual in attempting to collect debts. HRSA collection activities after assignment of insured loans primarily involve issuing collection notices and referring accounts to the Department of Justice for litigation. According to HRSA officials, they also attempt to personally contact debtors by telephone before referral to Justice.

On a limited test basis, HRSA used the services of a private collection contractor in 1982 and 1986, but the contractor was unsuccessful in collecting most of HRSA's debt. The contractor was only able to collect $3,200 of the approximately $920,000 in the insured loan accounts referred. HRSA is currently negotiating a new administration-wide collection contract, and when this is accomplished, defaulted insured accounts will be referred. HRSA officials stated that they are not using collection services available under the General Services Administration government-wide contract because it does not provide for the service-contingent debt which arises under the scholarship program.

As in the scholarship program, for tax year 1986, HRSA participated in the IRS tax refund offset program. Prior to referring accounts to IRS, HRSA reported them to a consumer reporting agency. However, according to HRSA officials, HRSA has not continued such reporting on a regular basis because of staffing constraints. We believe HRSA should, as allowed under the Debt Collection Act of 1982, and as required by the PHS Debt Management Manual, routinely report delinquent insured loan accounts to a consumer reporting agency.

Delays in Collection

HRSA had unsuccessfully attempted to collect six of the ten accounts in our sample for an average of almost 18 months before it referred the cases to the Department of Justice for litigation. Of the six, one debtor paid in full after HRSA referred the account to the Department of Justice. Of the four remaining cases not referred to Justice by the end of February 1987, three had been in the collection process almost 20 months, and HRSA had postponed collection actions on the fourth to allow the debtor to take his licensing examination. Similar delays were noted in a 1985
Chapter 3
HRSA Debt Collection Actions Could Be Improved

PHS study which found that HRSA was spending approximately 17.7 months attempting to collect delinquent insured loan accounts.

The following examples illustrate these collection delays:

- Over a period of over 19 months, HRSA issued six notices to a debtor who owed approximately $20,000. The debtor did not respond to any of the notices, and the case was referred to the Department of Justice. Eleven months elapsed between the fifth and sixth notices. During this period, HRSA was unsuccessful in contacting the debtor by letter and telephone to request information on the status of the debt. Over 3 months elapsed between the sixth notice and the date HRSA referred the case to Justice. As of mid-July 1987, HRSA had not collected any amount from this debtor.

- During a period of 18 months, HRSA issued six notices, two of them "final" and one providing the debtor an additional 15 days to respond, before referring a debt valued at over $22,000 to the Department of Justice. The debtor did not respond to any of HRSA's notices. Almost 8 months elapsed between the date of the final notice and the date the case was referred to Justice. As of mid-July 1987, HRSA had collected $1,350 from this debtor.

- During a period of over 13 months, HRSA issued seven collection notices, three of which were returned unclaimed, to a debtor owing about $21,000. Over 3 months elapsed between issuance of the sixth and seventh notices. An additional 3 months elapsed between the seventh notice and referral of the case to Justice. By mid-July 1987, HRSA had not collected any amount from this debtor.

Reasons for Delays

As was the case with scholarship collections, HRSA lacks a comprehensive debt management system which would facilitate timely collection action. Compounding this situation are inefficient collection procedures and a general lack of staff assigned to this collection function.

HRSA often issues numerous and sometimes redundant notices to debtors, a procedure which lengthens the administrative collections process. This is partially because HRSA was following an outdated edition of the PHS Debt Management Manual which required four written notices for this type of debt. The current manual requires issuance of only three written notices. In addition, HRSA officials informed us that collection notices are often returned unclaimed or unforwardable. As a result, time must be
taken to verify or correct the addresses and to remail the notices. However, of the 19 notices issued in the case examples listed earlier, we found documentation that only 4 had been returned unclaimed.

HRSA officials further attributed the collection problems to a lack of staff. Only four full-time staff are currently handling the approximately 1,450 defaulted insured loan accounts. Staff resources have remained stable despite the rise in receivables from under $400,000 at the end of fiscal year 1982 to over $30 million by the end of fiscal year 1986. In addition to developing a debt management system, HRSA plans to centralize debt collection responsibility. Currently, insured loan collections are conducted by the division responsible for the program. HRSA officials believe the development of a comprehensive collection system and the centralization of the collection function should help alleviate its staffing problem.

Because insured accounts are delinquent when assigned to HRSA and lenders have already unsuccessfully attempted to collect these debts, timely completion of administrative collection actions is imperative. As allowed by the Debt Collection Act and provided for in the PHS Debt Management Manual, if further demand for payment appears futile, HRSA should expedite steps that would best protect the government.

In many cases collection actions could be limited to a notice advising the debtor that the account has been assigned to HRSA, that HRSA will initiate collection actions if suitable repayment arrangements are not made within a specified time period, and that the debtor has certain rights. Unless the specific circumstances of a case indicate otherwise, if the debtor does not respond within the period established by HRSA, HRSA should immediately proceed to refer delinquent accounts to consumer reporting agencies, private collection contractors, and/or the Department of Justice for litigation.
HHS regulations would allow the offsetting of Medicare reimbursements to physicians delinquent on PHS medical educational assistance. However, HHS has not utilized offset because of a belief that physicians would circumvent this effort by refusing to accept Medicare assignment.\textsuperscript{12} Under these circumstances, Medicare patients could instead pay the cost of services received and request a reimbursement from HHS. Since the physicians would not be receiving a reimbursement, there would be no opportunity for offset on the part of HHS.

According to an April 1985 report issued by the HHS Inspector General, HHS's failure to use offset results in continued federal Medicare reimbursements to individuals indebted to the Department under other programs. The IG recommended that HHS offset Medicare payments to recover debts from physicians delinquent on PHS medical educational assistance.\textsuperscript{13}

In responding to the IG report, PHS concurred with the recommendation to offset Medicare reimbursements to delinquent physicians. The Health Care Financing Administration (HCFA), which is responsible for administering the Medicare program, did not support offset, primarily because it believed that delinquent physicians would circumvent the offset effort by not accepting Medicare assignment. HCFA believes a more effective sanction is possible by totally excluding delinquent physicians from the Medicare program.

The Department of Health and Human Services also objects to Medicare offset for the same reason as HCFA. Offset is possible only when participating physicians bill HHS for services and receive direct federal reimbursements. HHS officials believe physicians may simply stop accepting Medicare assignment and require that Medicare patients seek reimbursement from HHS. Offset would, therefore, be circumvented. According to Department officials, for this type of offset to be effective, HHS would

\textsuperscript{12}Under Medicare assignment, physicians bill HHS for services rendered to Medicare beneficiaries and receive direct federal reimbursements. Physicians are obligated to accept standard charges established by HHS for particular services as full payment.

\textsuperscript{13}In this report, which addressed the Medicare and Medicaid programs in total, the IG also recommended that Medicaid payments to delinquent physicians be offset. The IG reported that for a sample of 264 delinquent scholarship recipients, 80 received Medicare and Medicaid reimbursements totaling about $3.5 million. Reimbursements to these individuals ranged from approximately $1,100 to about $300,000. The IG projected that HHS could have recovered about $2.3 million of the total principal debt of the sampled cases if offset had been utilized. An IG official informed us that about $1.1 million (50 percent) of this amount is attributable to the Medicare program. Because of the significant administrative questions which arise because the program is predominantly administered by the various states, we did not address the potential for offset of Medicaid reimbursements.
have to require physicians delinquent on HRSA educational assistance to accept Medicare assignment. HHS officials informed us that the Department is unwilling to seek authority requiring mandatory Medicare assignment for physicians who are delinquent because they believe physicians would choose not to participate in the Medicare program. However, HHS has not performed any studies or analyses to determine whether offset would, in fact, affect physician participation in the Medicare program.

As an alternative to offset, HHS favors excluding physicians from the Medicare program if they are delinquent under PHS education assistance programs. HHS's IG supports exclusion in cases where all other available collection measures have been exhausted. Under exclusion, if the services of non-participating physicians are used, patients normally eligible for Medicare coverage would have to pay the physician, without any Medicare assistance. HHS believes the mere possibility of exclusion would induce delinquent physicians to pay debts owed because of the potential for lost income.

The Medicare and Medicaid Patient and Program Protection Act of 1987 (Public Law 100-93), dated August 18, 1987, authorizes HHS, under certain circumstances, to exclude physicians from the Medicare program if they are in default on repayment of HHS scholarships or loans for health professions education. However, prior to exclusion, the act requires HHS to take all reasonable steps available to secure repayment of such obligations. We believe offset is a reasonable step which should be attempted prior to exclusion.

We believe that the IG report demonstrates opportunities to recover significant numbers of delinquent debts through administrative offset. In a report issued in July 1986, we detailed the amount of physicians' income resulting from the Medicare program.\(^\text{14}\) Based on 1981 data, we reported that approximately 17 percent of physicians' gross income resulted from the Medicare program, ranging from 1 to 35 percent depending on specialty, and that an average of 36 percent of all Medicare payments were direct federal reimbursements made to participating physicians. We believe this report demonstrates the effect of the Medicare program on physician income. Further, a physician participation rate of 36 percent illustrates that many opportunities for offset may exist.

\(^{1}\)Medicare: Physician Income by Specialty and Place of Service (GAO/HRD-86-90BR, July 24, 1986).
Chapter 3
HRSA Debt Collection Actions Could Be Improved

We have long supported use of offset to recover delinquent amounts or to prevent additional federal awards to those who owe delinquent debts to the federal government. We believe that offset and exclusion should be used as complementary debt collection tools. Therefore, in cases where offset proves successful, HHS would not have to utilize the more drastic exclusion authority which may adversely affect its efforts to encourage physicians to accept Medicare assignment. Also, HHS could determine the potential effects of offset on Medicare services if offset were implemented on a pilot basis, similar to IRS's income tax refund offset program. This would allow HHS to study the benefits and risks associated with Medicare offset.

Conclusions

HRSA's debt collection efforts under the scholarship and insured loan programs have been hampered by practices and procedures which slow the debt collection process. Although we agree with HRSA officials that a comprehensive debt collection system would help resolve many of the debt collection processing problems by allowing more timely and accurate administration of debt collection activities, we further believe that HRSA must take administrative action in concert with implementation of such a system to ensure that collection activities for both programs are aggressive and timely.

Under the scholarship program, HRSA needs to set the due date for delinquent scholarship receivables as 1 year from the date of contract default. Also, under both the scholarship and insured loan programs, HRSA must adhere to specific collection actions and time frames to ensure that the collection process is completed in a timely manner. We believe that by doing so, HRSA can more quickly resolve delinquent scholarship and insured loan accounts.

In addition, HRSA and HCFA need to attempt collection of delinquent debts by withholding Medicare payments to delinquent physicians, a potentially effective collection technique. We believe every effort should be made to collect or induce repayment before physicians are entirely excluded from the Medicare program.

Recommendations

We recommend that the Secretary of HHS direct the Administrator of HRSA to reduce the collections process time in the scholarship and insured loan programs.

Under the scholarship program, HRSA should
HRSA Debt Collection Actions Could Be Improved

- establish, in accordance with law, the full repayment date as 1 year from the date of default,
- issue periodic notices and attempt telephone contacts based on predetermined time frames during the 1-year period, and
- aggressively pursue collection after the 1-year period following the date of initial default by adhering to procedures in the PHS Debt Management Manual.

Under the insured loan program, HRSA should

- adhere to strict time frames and guidance established by PHS in its Debt Management Manual for completing the collection process, including routinely referring delinquent cases to consumer reporting agencies.

To facilitate the collection of unpaid debts, we recommend that the Secretary of HHS direct the Administrators of HCFA and HRSA to pilot test the offset of Medicare reimbursements to physicians delinquent on HRSA medical educational assistance. If the pilot test successfully demonstrates the merits of the offset procedure, offset should be fully implemented.

Agency Comments and Our Evaluation

HHS agreed with our recommendations to reduce the collection process time in the scholarship and insured loan programs. HHS advised us of several actions which it is now taking or which it plans to take to improve collections under these programs. For example, under the scholarship program, HRSA plans to issue a notice to recipients at the time notification of default is received from the program office, another 60 days prior to the repayment date, and a third one 30 days prior to the repayment date.

An HHS official responsible for scholarship and insured loan debts advised us that in response to our draft report, under the scholarship program, HRSA (1) adopted a policy of establishing the full repayment date as 1 year from the date of default and (2) increased its monitoring efforts to ensure that claims are forwarded to a collection agency and to the Department of Justice within established time frames. The official advised us that under the insured loan program, HRSA has recently established a policy of complying with the PHS Debt Management Manual time frames. This action is to expedite the processing of claims. Sufficient time has not elapsed to determine the effectiveness of these actions.
HHS did not concur with our recommendation to make telephone contacts during the 1 year period before scholarship debts become due. It believes that this would not be an efficient utilization of resources. While we agree with HHS that available resources may not permit such contacts in every case, we believe that there are times when telephone contacts may be appropriate, and that HHS should include such calls as part of its collection procedures when the circumstances of a particular case indicate such contacts would be beneficial.

HHS also disagreed with our recommendation to pilot test the offset of Medicare reimbursements to physicians delinquent on HRSA medical education assistance. HHS opposes Medicare offset primarily because it believes it would not work. HHS is concerned that such a policy would discourage physicians from accepting Medicare assignment. As pointed out in this report, HHS favors exclusion from the Medicare program as an alternative to offset.

HHS also points out that recently passed legislation—the Medicare and Medicaid Patient and Program Protection Act of 1987 (P.L. 100-93)—authorizes the Department to exclude physicians from the Medicare program for failure to repay medical education loans. Based on this legislation, HHS plans to use the exclusion authority as a means of facilitating collection of unpaid debts. It therefore believes that a pilot test of Medicare offset would be inappropriate as well as ineffective.

As pointed out in this report, HHS has never studied the possibility of offsetting Medicare payments to physicians who owe delinquent debts to the Department. In addition, the Medicare and Medicaid Patient and Program Protection Act specifically requires HHS to take all reasonable steps to secure repayment before such physicians are excluded from the Medicare program. Further, both the Senate and House Committee reports\(^1\) on this act emphasize that exclusion is a remedy of last resort for collecting outstanding loan obligations and that the Secretary is expected to use alternative administrative collection tools whenever feasible. In this regard, these reports specifically state that the Secretary should explore the feasibility of deducting overdue loan obligations from Medicare payments to the defaulting physician. We believe that in order to determine whether offset will work and for HHS to conform to the intent of the Congress in enacting this legislation, HHS should pilot

\(^1\)Senate Report No. 100-109 (Committee on Finance) and House Report No 100-85 Part 1 (Committee on Energy and Commerce).
Chapter 3
HRSA Debt Collection Actions Could
Be Improved

test the use of Medicare offset and fully implement this collection tool if
the test is successful.
DEPARTMENT OF HEALTH & HUMAN SERVICES  
Office of Inspector General  
Washington, D.C. 20201

NOV 30 1987

Mr. Richard L. Fogel  
Assistant Comptroller General  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Fogel:

The Secretary asked that I respond to your request for the Department's comments on your draft report, "Debt Collection: More Aggressive Action Needed to Collect Debts Owed by Health Professionals." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,

[Signature]  
Richard P. Kusserow  
Inspector General

Enclosure
Appendix I
Comments From the Department of Health and Human Services

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE GENERAL ACCOUNTING OFFICE (GAO) DRAFT REPORT "DEBT COLLECTION: MORE AGGRESSIVE ACTION NEEDED TO COLLECT DEBTS OWED BY HEALTH PROFESSIONALS," DATED OCTOBER 1987

GAO Recommendation
We recommend that the Secretary of HHS direct the Administrator of HRSA to:

--Establish time limits within which schools participating in the Health Professions and Nursing Student Loan programs must determine the collectibility of delinquent loans and must request HRSA write-off approval for those which are determined to be uncollectible.

--Set time limits within which the schools must reimburse the funds, or HRSA in the case of those schools which are no longer participating in the programs, for those loans for which the schools did not follow required collection procedures.

Department Comment
We concur. We have asked the Office of the General Counsel for an opinion as to whether the Department has the legal authority to implement this recommendation. If it is decided that the Department has such authority, we will implement the recommendation.

GAO Recommendation
We recommend that the Secretary of HHS direct the Administrator of HRSA to reduce the collections process time in the scholarship and guaranteed loan programs.

--Under the scholarship program, HRSA should establish, in accordance with law, the full repayment date as 1 year from the date of default.

Department Comment
We concur and have implemented this change. Now, upon receipt of notification from the National Health Service Corps scholarship program office that a student is in default, a letter is immediately sent to the student stating that he or she has 1 year from the date of default to make full repayment of the defaulted loans.
Appendix I
Comments From the Department of Health and Human Services

Page 2

GAO Recommendation

- Under the scholarship program, HRSA should issue periodic notices and attempt telephone contacts based on predetermined time frames during the 1-year period.

Department Comment

We concur with the recommendation of issuing periodic notices. Notices will be issued to recipients at the time notification of default is received from the program office, 60 days prior to the repayment date, and 30 days prior to the repayment date.

We do not concur with attempting to make telephone contacts during the 1-year period. This would not be an efficient utilization of resources. However, telephone contacts will be used as a collection technique/mechanism in notifying scholars on a repayment agreement that a particular payment is late.

GAO Recommendation

- Under the scholarship program, HRSA should aggressively pursue collection after the 1-year period following the date of initial default by adhering to procedures in the PHS Debt Management Manual.

Department Comment

We concur. The Division of Fiscal Services (DFS), HRSA, has increased monitoring efforts to ensure that claims are forwarded to a collection agency within 6 months after the date in which full payment should have been made, with subsequent referral to the Department of Justice within the next 9 months.

GAO Recommendation

- Under the guaranteed loan program, HRSA should adhere to strict time frames and guidance established by PHS in its Debt Management Manual for completing the collection process, including routinely referring delinquent cases to consumer reporting agencies.

Department Comment

We concur. HRSA is adhering to strict time frames and guidance established by PHS in the Debt Management Manual. However, in accordance with 42 CFR Part 60, Health Education Assistance Loan Program, issued in January 1987, the lenders are now responsible for (1) reporting delinquent loans to consumer reporting agencies, and (2) litigating defaulted borrower before submitting a claim to the Federal Government for payment.
Appendix I
Comments From the Department of Health
and Human Services

Page 3

GAO Recommendation

To facilitate the collection of unpaid debts, we recommend that the Secretary of HHS direct the Administrators of HCFA and HRSA to pilot test the offset of Medicare reimbursements to physicians delinquent on HRSA medical educational assistance. If the pilot test successfully demonstrates the merits of the offset procedure, offset should be fully implemented.

Department Comment

As the report indicates, HHS has opposed the Medicare offset idea, primarily because we believe it would not work. Physicians would circumvent this effort by refusing to accept Medicare assignment or by ceasing to be participating physicians. In either case, the Medicare reimbursement would go to the patient, and there would be no payment to the physician to offset. The physician would bill the patient and receive reimbursement, and the Department would not recover any of the debt.

As the report also indicates, HHS has sought legislation to totally exclude delinquent physicians from the Medicare program. This proposal was recently enacted in the Medicare and Medicaid Patient and Program Protection Act of 1987 (P.L. 100-93), which authorizes the Department to exclude physicians from the Medicare program for a variety of reasons, including failure to repay medical educational loans. Now that the Department has this authority, a pilot effort focusing only on offset would be inappropriate as well as ineffective. Rather, the Department intends to use the exclusion authority as a means of facilitating the collection of unpaid debts. We believe that few physicians will choose to be excluded from the Medicare program rather than repay their loans. Even the threat of exclusion should provide a strong incentive for the delinquent physician to cooperate in repaying debts, whether this repayment occurs through offset of reimbursement or direct payments by the physician.

Technical Comments

Executive Summary

--Page 4, First Line

Add "and other health professions" after "medical."
Appendix I
Comments From the Department of Health
and Human Services

Page 4

--Page 4, Fourth Sentence
To provide clarification, this sentence should be rewritten as follows:

"As of September 30, 1986, loans guaranteed under this program totalled about $1 billion. Of the $1 billion, about $30 million in defaulted guaranteed loans had been submitted by the lending institutions to HRSA for reimbursement and the initiation of appropriate collection actions. Of the $30 million in defaulted loans, approximately $21 million, or 69 percent, had not been collected by HRSA."

--Page 5, First Paragraph, Third Line
Delete "in an attempt to improve," and substitute "that have improved."

--Page 5, First Paragraph
Insert between the first and second sentences, "Included in these changes have been final regulations for the Health Professions Student Loan (42 CFR Part 57, Section 200) and the Nursing Student Loan (42 CFR Part 57, Section 300) programs, effective September 23, 1985."

--Page 6, First Sentence
This sentence states that "This situation deprives other needy students of the use of loan funds which might otherwise be available to them." It should be noted that writing-off uncollectible loans does not restore funds to the student loan program.

See comment 5.

Now on page 3

See comment 4.

Now on page 3

See comment 6.

See comment 7
The following are GAO's comments on the Department of Health and Human Services' letter dated November 30, 1987.

**GAO Comments:**

1. No change to report needed. Discussed in agency comments section of chapter 2.

2. No change to report needed. Discussed in agency comments section of chapter 3.

3. Discussed in agency comments section of chapter 3 and included in chapter 3 an explanation of recently passed law which gives HHS authority to exclude from the Medicare program those physicians who owe delinquent debts to HHS.


5. Report clarified.

6. No change to report needed. This is discussed on page 16.

7. Sentence deleted from executive summary. However, as discussed in chapter 2, if schools write off loans without receiving HRSA approval, they must reimburse the funds—thus providing additional funds to be reloaned to other health professions and nursing students.
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